OFFICE OF THE SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

MANAGEMENT OF RAPID REGIONAL RESPONSE PROGRAM GRANTS IN SOUTH-CENTRAL IRAQ

REPORT NO. SIGIR 05-015
OCTOBER 25, 2005

Report Documentation Page

Form Approved
OMB No. 0704-0188

Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.

1. REPORT DATE	2. REPORT TYPE	3. DATES COVERED
25 OCT 2005		**00-00-2005 to 00-00-2005**

4. TITLE AND SUBTITLE	5a. CONTRACT NUMBER
Management of Rapid Regional Response Program Grants in South-Central Iraq	5b. GRANT NUMBER
	5c. PROGRAM ELEMENT NUMBER
6. AUTHOR(S)	5d. PROJECT NUMBER
	5e. TASK NUMBER
	5f. WORK UNIT NUMBER
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) **Office of the Special Inspector General for Iraq Reconstruction,400 Army Navy Drive,Arlington,VA,22202-4704**	8. PERFORMING ORGANIZATION REPORT NUMBER
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)	10. SPONSOR/MONITOR'S ACRONYM(S)
	11. SPONSOR/MONITOR'S REPORT NUMBER(S)

12. DISTRIBUTION/AVAILABILITY STATEMENT
Approved for public release; distribution unlimited

13. SUPPLEMENTARY NOTES

14. ABSTRACT

15. SUBJECT TERMS

16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT	18. NUMBER OF PAGES	19a. NAME OF RESPONSIBLE PERSON
a. REPORT **unclassified**	b. ABSTRACT **unclassified**	c. THIS PAGE **unclassified**	**Same as Report (SAR)**	**40**	

SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

October 25, 2005

MEMORANDUM FOR UNITED STATES AMBASSADOR TO IRAQ
DIRECTOR, IRAQ RECONSTRUCTION MANAGEMENT OFFICE
COMMANDING GENERAL, JOINT CONTRACTING COMMAND – IRAQ/AFGHANISTAN
COMMANDER, JOINT AREA SUPPORT GROUP - CENTRAL

SUBJECT: Management of Rapid Regional Response Program Grants in South-Central Iraq (Report No. SIGIR 05-015)

We are providing this audit report for your information and use. We performed the audit in accordance with our statutory duties contained in Public Law 108-106, as amended, which mandates the independent and objective conduct of audits relating to the programs and operations funded with amounts appropriated or otherwise made available to the Iraq Relief and Reconstruction Fund. Public Law 108-106, as amended, requires that we provide for the independent and objective leadership and coordination of and recommendations of polices designed to promote economy, efficiency, and effectiveness in the administration of such programs and operations and to prevent and detect waste, fraud, and abuse.

We considered management comments from the Iraq Reconstruction Management Office, the Joint Contracting Command – Iraq/Afghanistan, and the Joint Area Support Group - Central on a draft of this report when preparing the final report. There was one recommendation to the Joint Area Support Group – Central that they did not believe they had the authority to take action on the recovery of overpayments made to grantees. Therefore, we added a recommendation to the final report to resolve that issue.

Because we added a recommendation to the final report, we request that the United States Ambassador to Iraq provide comments to the final report by November 14, 2005. Comments should describe actions taken or planned in response to recommendation and provide completion dates for the actions.

We appreciate the courtesies extended to the staff. For additional information on this report, please contact Mr. Joseph T. McDermott at (703) 428-1100, or at joseph.mcdermott@sigir.mil or Mr. Clifton Spruill at (703) 343-8817, or at clifton.spruill@iraq.centcom.com. For the report distribution, see Appendix G.

Stuart W. Bowen, Jr.
Inspector General

Special Inspector General for Iraq Reconstruction

Report No. SIGIR 05-015 **October 25, 2005**
(Project No. D2004-DCPAAF-0034.2)

Management of Rapid Regional Response Program Grants in South-Central Iraq

Executive Summary

Introduction. This audit report is one of a series of reports addressing controls over cash, contract management, and grant management for the Coalition Provisional Authority South-Central Region. This audit report discusses the processes used for the authorization, award, execution, and oversight of grants within the Coalition Provisional Authority South-Central Region.

During 2003-2004, the Coalition Provisional Authority used grants in Iraq to transfer Development Fund for Iraq funds from the Coalition Provisional Authority or coalition forces to grant recipients. The grants were intended to help carry out a program or project that directly benefited the Iraqi people or assisted in the reconstruction and recovery of Iraq. Between February and June 2004, the Coalition Provisional Authority South-Central Region used funds provided from the Development Fund for Iraq through the Rapid Regional Response Program to award 74 grants worth approximately $20.8 million.

Objective. The overall audit objective was to determine whether disbursing officers in selected locations in southern Iraq complied with applicable guidance and properly controlled and accounted for Development Fund for Iraq cash assets and expenditures. During our audit, we observed deficiencies in grant award documentation and expanded our scope to determine whether grants were properly managed by coalition representatives in the South-Central Region.

Results. South-Central Region personnel, under the direction of the Coalition Provisional Authority, did not effectively manage 74 grants awarded through the Rapid Regional Response Program in the amount of $20.8 million.

South-Central Region personnel cannot account for more than $20.5 million in Development Fund for Iraq funds provided for Rapid Regional Response Program grants, and they made payments in the amount of more than $2.6 million that exceeded the total value grants awarded. Our audit shows that Coalition Provisional Authority South-Central Region personnel disbursed a total of almost $23.5 million through 74 grants, although the award value of these grants was only $20.8 million.

We could not determine how grant recipients actually used the cash distributed by the South-Central Region through the Rapid Regional Response Program. Because we could not find documentation to support grant performance, we could not determine: whether the grants met their intended goals; whether the work for which the grants were intended was started or satisfactorily completed; to whom the cash was actually disbursed in some grants; and what benefit, if any, the Iraqi people received as a result of the grants.

We concluded, based on the documentation examined during our review, that the South-Central Region failed to adequately manage its Rapid Regional Response Program grant program.

Material Internal Control Weaknesses. Our audit identified material internal control weaknesses. For example, United States government agents and Coalition partners did not comply with applicable guidance regarding cash management and did not properly control and account for Iraqi cash assets. In addition, based on our review of the grant award process and of actual grant management, there was no assurance that fraud, waste, and abuse did not occur in the management and administration of grant funds.

Indications of Potential Fraud. During this audit, we found indications of potential fraud and referred these matters to the Assistant Inspector General for Investigations, Office of the Special Inspector General for Iraq Reconstruction, for action. Related investigations are continuing.

Recommendations. Since the Coalition Provisional Authority was dissolved on June 28, 2004, we are addressing the recommendations to three of the four successor organizations: the Iraq Reconstruction Management Office, the Joint Contracting Command – Iraq/Afghanistan, and the Joint Area Support Group - Central.

We added a recommendation to the United States Ambassador to Iraq, because the Commander, Joint Area Support Group - Central stated that the responsibility for seeking reimbursement of any overpayments is up to the office that managed the grant and not the disbursing office.

1. We recommend that the United States Ambassador to Iraq determine the party responsible for collecting the overpaid grant amounts and direct the responsible individual to take action to seek reimbursement for the overpaid grant amounts.

2. We recommend that the Director, Iraq Reconstruction Management Office, ensure proper authorization and oversight of the grant approval and administrative processes for all existing and future grants.

3. We recommend that the Commanding General, Joint Contracting Command – Iraq/Afghanistan require contracting officers, for all existing and future grants:
    a. Follow the Department of Defense 3210.6-R, Grants and Agreements, for the award and administration of grants
    b. Require grant recipients to provide receipts for all expenditures
    c. Require monthly reports from the grant recipients detailing expenditures and achievements
    d. Ensure regular site-visits to the grant recipient location
    e. Require reports at the end of the grant to assess the performance of the grantee and to document the outcome of the grant in relation to the grant goals
4. We recommend that the Commander, Joint Area Support Group - Central:
    a. Require paying agents to obtain proper grant approval documentation prior to making disbursements
    b. Require the appropriate separation of duties

c. Establish a special team to review disbursements made in other regions of Iraq to determine if the same conditions exist as determined by the Special Inspector General for Iraq Reconstruction in the South-Central Region

Management Comments and Audit Response. The Director, Iraq Reconstruction Management Office; the Commanding General, Joint Contracting Command – Iraq/Afghanistan; and the Commander, Joint Area Support Group - Central generally concurred with the finding and recommendations. The comments that concurred with recommendations are responsive. However, for one recommendation, the Joint Area Support Group - Central stated it did not have the responsibility for seeking recovery of overpayments to grantees. Therefore, we added a recommendation to the United States Ambassador to Iraq in the final report to establish who is responsible to recover these funds and deleted the recommendation directed to the Joint Area Support Group - Central to seek recovery of overpayments.

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Background

Introduction

This audit report is one of a series of reports addressing controls over cash, contract management, and grant management for the Coalition Provisional Authority (CPA) South-Central Region. This audit report discusses the processes used for the authorization, award, execution, and oversight of grants within the CPA South-Central Region.

Coalition Provisional Authority. CPA Regulation Number 1 was issued on May 16, 2003, by the CPA Administrator, "*Pursuant* to my authority as Administrator of the Coalition Provisional Authority, relevant United Nations Security Council resolutions, including Resolution 1483 (2003), and the laws and usages of war,. . . ." CPA Regulation Number 1 stated:

> The CPA shall exercise powers of government temporarily in order to provide for the effective administration of Iraq during the period of transitional administration, to restore conditions of security and stability, to create conditions in which the Iraqi people can freely determine their own political future, including by advancing efforts to restore and establish national and local institutions for representative governance and facilitating economic recovery and sustainable reconstruction and development.

The Development Fund for Iraq. United Nations Security Council Resolution 1483, which was adopted on May 22, 2003, noted the establishment of the Development Fund for Iraq (DFI) and assigned responsibility for managing the fund to the CPA. The resolution noted that the CPA should direct disbursement of DFI funds, in consultation with the Iraqi interim administration. It also required that the DFI funds be used in a transparent manner to meet the humanitarian needs of the Iraqi people, for the economic reconstruction and repair of Iraq's infrastructure, for the continued disarmament of Iraq, for the costs of Iraqi civilian administration, and for other purposes benefiting the people of Iraq. The DFI was the primary financial vehicle to channel revenue from ongoing Iraqi oil sales, unencumbered Oil for Food deposits, and repatriated Iraqi assets into the relief and reconstruction of Iraq.

During the CPA's administration of Iraq, the CPA Comptroller managed the DFI, and the Program Review Board (PRB) was responsible for recommending expenditures of resources from the DFI. For a description of CPA Regulation Number 2, which applied to the DFI, and CPA Regulation Number 3, which applied to the PRB, see Appendix B.

Program Review Board Guidance. The Director of the PRB provided directives that applied to grants' management within CPA regions. Two of these directives addressed the management of the Rapid Regional Response Program (R3P):

- PRB Guidance 06, "Rapid Regional Response Program Overview," September 27, 2003
- PRB Guidance 06.2, "Rapid Regional Response Program Overview (amended)," December 14, 2003, and January 25, 2004

Rapid Regional Response Program. The R3P funds were derived from the DFI, and the CPA provided those funds to the Iraqi people for needed infrastructural repairs and upgrades. The objectives of the R3P were to create local jobs, support local industries, and stimulate the economy. The R3P was initially conceived as a civilian equivalent of the Commanders' Emergency Response Program fund.[1] Further, it was designed to provide maximum flexibility to regional and governorate coordinators in implementing projects responsive to the needs in their areas of responsibility. The program incorporated and expanded upon authorities of previously funded programs:

- the Directors' Emergency Response Program, which provided an emergency response capacity
- the Construction Initiative, which provided greater funding authority for construction activities

The discretionary authority under which regions could execute programs without prior Regional Program Coordinator approval was increased to $500,000 from $200,000 through PRB Guidance 06.2, as amended on December 14, 2003, and January 25, 2004.

South-Central Region. The CPA established the South-Central Regional office in the spring of 2003, and it was comprised of the provinces of Anbar, Babil, Karbala, Najaf, Qadisiyah, and Wasit; which cover approximately half of the land mass of Iraq. South-Central Region personnel worked with the Iraqi people and coalition forces to establish the conditions for a free, sovereign, and democratically-elected representative government in Iraq. The top priorities of the South-Central Region were electricity, human rights, security, strategic communications, tribal democracy, and women's rights.

Organizations Responsible Grants Management. The CPA was the authority responsible for the temporary governance of Iraq through June 28, 2004. Thereafter, the Iraqi Interim Government was the authority responsible for the governance of Iraq. The responsibility for the DFI transferred from the CPA to the Iraqi Interim Government on June 28, 2004. For information on the CPA organizational responsibilities concerning grants management, until it ceased to exist on June 28, 2004, see Appendix C.

Due to the dissolution of the CPA, four U.S. government organizations assumed responsibilities for the management of grants in Iraq. For information on the current organizational responsibilities for grants management in Iraq, see Appendix D.

Project and Contracting Office. The Project and Contracting Office (PCO) now has the responsibility to assess requirements for grants. National Security Presidential Directive 36, "United States Government Operations in Iraq," May 11, 2004, established the PCO and directed that the PCO provide acquisition and project management support with respect to activities in Iraq, to include grant related activities. The PCO reports through the Deputy Assistant Secretary of the Army (Policy and Procurement) to the Assistant Secretary of the Army for Acquisition, Logistics, and Technology. The PCO also administratively reports to the Iraq Reconstruction Management Office.

Iraq Reconstruction Management Office. The Iraq Reconstruction Management Office now has the responsibility to approve grants. National Security Presidential Directive 36, "United States Government Operations in Iraq," May 11, 2004, established

[1] According to Combined Joint Task Force-7, Fragmentary Order 89, June 19, 2003, DFI funds were to be used to help fund the Commanders' Emergency Response Program, which provides reconstruction assistance to the Iraqi people.

the Iraq Reconstruction Management Office within the Department of State and directed that organization to facilitate the transition in Iraq. The Iraq Reconstruction Management Office reports to the Chief of Mission in Iraq.

Joint Contracting Command – Iraq/Afghanistan. The Head of Contracting Activity, Joint Contracting Command – Iraq/Afghanistan now has the responsibility to administer grants.[2] The Joint Contracting Command – Iraq/Afghanistan was established in 2004 to consolidate contracting activities and reports through the Deputy Assistant Secretary of the Army (Policy and Procurement) to the Assistant Secretary of the Army for Acquisition, Logistics, and Technology.

Joint Area Support Group - Central Comptroller. The Joint Area Support Group - Central now has the financial responsibility[3] for grants. The CPA Comptroller, as part of the CPA, ceased to exist on June 28, 2004. When the CPA was dissolved, the CPA Comptroller was realigned as the Joint Area Support Group - Central Comptroller. The Joint Area Support Group - Central Comptroller continued to perform the same duties for that portion of the DFI still administered by the U.S. Government. The Joint Area Support Group - Central reports to the Commander, Multi-National Force – Iraq.

Objectives

The overall audit objective was to determine whether disbursing officers in selected locations in southern Iraq complied with applicable guidance and properly controlled and accounted for DFI cash assets and expenditures. During our audit, we observed deficiencies in grant award documentation and expanded our scope to determine whether CPA South Central Region personnel properly managed grants.

For a discussion of the audit scope, methodology, and a summary of prior coverage, see Appendix A. For definitions of the acronyms used in this report, see Appendix F. For a list of the audit team members, see Appendix H.

[2] The Joint Contracting Command – Iraq/Afghanistan used Department of Defense 3210.6-R, "DoD Grant and Agreement Regulations," April 13, 1998, as guidance.

[3] The Joint Area Support Group - Central Comptroller provided funds to the CPA regions to disburse for the grants. Afterward, the disbursement documentation was returned to the Joint Area Support Group - Central Comptroller's office for review and to be cleared.

Management of Grants in the South-Central Region

South-Central Region personnel, under the direction of the CPA, did not effectively manage 74 grants awarded through the R3P in the amount of $20.8 million.

This condition occurred because South-Central Region personnel did not always:

- follow established policies and procedures for authorizing, competing, and properly documenting grant awards
- properly monitor grant performance
- disburse funds in accordance with proper authorization or specific grant agreement disbursing criteria
- identify disbursements made to grant recipients
- account for the funds disbursed for the grants
- prevent payments that exceed the award value of grants

As a result, South-Central Region personnel cannot account for more than $20.5 million in DFI funds provided for R3P grants, and they made payments in the amount of more than $2.6 million that exceeded the total value grants awarded. Our audit shows that CPA South-Central Region personnel disbursed a total of almost $23.5 million through 74 grants, although the award value of these grants was only $20.8 million.

We could not determine how grant recipients actually used the cash distributed by the South-Central Region through the R3P. Because we could not find documentation to support grant performance, we could not determine: whether the grants met their intended goals; whether the work for which the grants were intended was started or satisfactorily completed; to whom the cash was actually disbursed in some grants; and what benefit, if any, the Iraqi people received as a result of the grants.

We concluded, based on the documentation examined during our review, that the South-Central Region failed to adequately manage its R3P grant program.

Guidance for Grants

In Iraq, the CPA used grants to transfer DFI funds from the CPA or coalition forces to a grant recipient. The grants were intended to help carry out a program or project that directly benefited the Iraqi people or assisted in the reconstruction and recovery of Iraq. The South-Central Region used funds provided from the DFI through the R3P to award 74 grants worth approximately $20.8 million between February and June 2004. A Department of Defense regulation and a CPA memorandum provided guidance for the management of grants.

Department of Defense 3210.6-R. According to Department of Defense 3210.6-R, "DoD [Department of Defense] Grant and Agreement Regulations," April 13, 1998, a grant is:

> A legal instrument which, consistent with 31 U.S.C. 6304, is used to enter into a relationship:
>
> (a) The principal purpose of which is to transfer a thing of value to the recipient to carry out a public purpose of support or stimulation authorized by a law of the United States, rather than to acquired property or services for the Department of Defense's direct benefit or use.
>
> (b) In which substantial involvement is not expected between the Department of Defense and the recipient when carrying out the activity contemplated by the grant.

Coalition Provisional Authority Memorandum 4. CPA Memorandum Number 4, "Contract and Grant Procedures Applicable to Vested and Seized Iraqi Property and the Developmental Fund for Iraq, Implementation of Regulation Number 3, Program Review Board," August 19, 2003, (CPA Memorandum Number 4) "establishes procedures applicable to the execution of contracts and grants for the benefit of the Iraqi people using Iraqi Funds. . . ." The memorandum directs that "the CPA will manage and spend Iraqi Funds, which belong to the Iraqi people, for their benefit. . . . in a transparent manner that fully comports with the CPA's obligations under international law, including Resolution 1483." The memo also states:

> Consistent with their programmatic responsibility to ensure that contractors and grantees properly perform their duties, Contracting Officers shall be responsible for regularly monitoring the post-award execution of all Contracts they approve. This monitoring process includes ensuring that the contractor provides the agreed upon goods, services or construction in accordance with the provisions, and that payments are made in a timely manner. Contracting Officers shall include in the Contract file a written report describing post-award performance by contractors or grantees, including a final assessment upon completion of the Contract. Contracting officers shall rely upon locally available military engineering resources in assessing all repair and construction projects. All documents related to the establishment and execution of Contracts will be maintained in a Contract file that includes the materials described in Appendix A to this Memorandum.

Further, the memorandum states "the Head of Contracting Activity, CPA, shall provide administrative oversight as well as technical supervision" of contracting officers. The appendices to this memorandum provided supplemental instructions on preparing and executing contracts and grants pursuant to the memorandum. Specifically, Appendices A, B, and C of the memorandum identified the contract file requirements, standard terms and conditions for solicitations and contracts in excess of $5,000, and contract and grant procedures applicable to vested and seized Iraqi property and the DFI.

Authorization, Award, and Documentation for Grants

South-Central Region personnel did not follow established policies and procedures for authorizing, competing, and properly documenting the awarding of grants issued through the R3P.

Grants Awarded for Projects Exceeding $500,000. Ten of the 74 grants we reviewed during our audit were awarded in amounts greater than $500,000. The value of those ten grants was $13.4 million. We identified discrepancies in the compliance with the procedures concerning the discretionary authority for the approval of grants, the competition for awards, and the amounts of the awards.

***Discretionary Authority*.** We determined that South-Central Region personnel improperly approved 9 of the 10 grants. The value of those nine grants was about $7.4 million. South-Central Region personnel did not fully comply with PRB Guidance 06.2 (amended). The guidance stated that the "discretionary authority under which Regional Coordinators can execute projects without Regional Program Coordinator approval is increased to $500,000, and projects up to $100,000 can be executed at the Governorate Coordinators' discretion." Projects over $500,000 required Regional Program Coordinator approval via form PRB-01, "Funding Request Form." The Regional Program Coordinator had to review and approve the funding request for completeness of the information concerning budget and justification, appropriate clearances, identification of funding sources, and other pertinent factors. South-Central Region personnel did not submit form PRB-01 for nine grants to the Regional Program Coordinator for approval; instead, South-Central Region personnel approved the grants. For a description of CPA Regulation Number 3, which applied to the PRB review process, see Appendix B.

***Competition in Awarding Grants*.** We determined that none of the 10 grants, totaling $13.4 million, was competitively awarded, and that there was no evidence of any necessary competitive process documented in the files. South-Central Region personnel did not comply with the required competition actions for awarding grants over $500,000. CPA Memorandum 4 states that "reasonable efforts will be made to identify all organizations capable of performing the Grant. Grants in excess of $500,000 will be tendered for proposals by capable organizations, except as authorized for good cause, in writing, by the official that appointed the Contracting Officer involved."

***Split Awards*.** We determined that five grants, totaling $2.1 million, were awarded to two recipients. South-Central Region personnel did not fully comply with PRB Guidance 06.2 (amended). They split the grant amounts in an attempt to keep the grant awards under the $500,000 threshold and thus circumvent Regional Program Coordinator review. Projects over $500,000 required Regional Program Coordinator approval. Although each of the five grants amounted to less than the $500,000 threshold, when combined, both recipients received grant awards exceeding the $500,000 threshold.

Separation of Duties. We identified three examples in which the South-Central Region disbursing agent approved the Funding Request Forms, instead of the Regional Program Coordinator, who was the appropriate approval authority. The disbursing agent personally authorized and disbursed $950,000 worth of grants; but, given the lack of documentation in the grant files, we could not determine whether this agent approved any additional grant funding. PRB Guidance 06.2 (amended) specifically stated that "the disbursing authority may not be involved in the approval process." Therefore, the disbursing agent did not have the discretionary authority to approve these funding requests.

Signatures for Grant Agreements. We determined that 4 of the 74 grants were not signed by the contracting officer and that 9 were not signed by the grant recipient, as required.

Documentation in Grant Files. We determined that 73 of the 74 grants did not have the required documentation and approval authority. South-Central Region personnel did not fully comply with PRB Guidance 06.2 (amended), which required that all project proposals must be justified based upon the criteria in the Funding Request Form. For example, 53 of 74 grants did not have the Funding Request Form in the files. Of the 21 grant files that contained a Funding Request Form, 1 form was signed by an appropriate approving authority, 8 forms were signed by South-Central Region personnel that did not possess the appropriate discretionary authority, and 12 forms were unsigned.

Monitoring Grant Performance

South-Central Region personnel did not properly monitor grant performance as required by the guidance provided by CPA Memorandum Number 4 and PRB Guidance 05, "Project Monitoring and Evaluation," September 30, 2003 (PRB Guidance 05). Although CPA Memorandum Number 4 stated that performance monitoring was important to ensure that grantees are properly performing their duties, this guidance and PRB Guidance 05 generally were not followed.

Management Actions to Monitor Grant Performance. We determined that, for most of the grants we reviewed, the responsible officials did not perform the following required duties:

- Reviewing project timelines and project implementation plans with grant recipients
- Visiting projects sites regularly
- Ensuring monthly reporting from grant recipients that documented the expenditures incurred and achievements accomplished
- Documenting the results of the monitoring and evaluation, which should have been included in grant files
- Confirming delivery of goods or products to recipients to verify receipt
- Documenting satisfactory work performance by recipients, including a completed Certificate of Completion
- Discussing with the Iraqi beneficiary of the project whether the project achieved the desired outcome
- Reporting on grantee performance by the contracting officer post-award

Progress Reports in the Grant Files. We determined that 69 of the 74 grants did not have any progress reports in the grant files, and that none of the 74 grants awarded by the South-Central Region had any final reports in the files. South-Central Region grant files contained no documentation of site-visits or final reports written after the completion of the grant. When we asked about the status of the grants, current and former South-Central Region personnel stated they were not certain what the status or the outcome was of the grants. Without any progress reports, site-visit reports, or final reports from the grant recipients, we could not determine whether the work on projects was satisfactorily completed or even begun.

Coalition Provisional Authority Oversight. We determined that no one from outside the South-Central Region provided any oversight of the South-Central Region personnel actions in managing or monitoring these grants.

Disbursing Grant Funds

South-Central Region personnel disbursed funds in advance of authorization, violated specific grant agreement disbursing criteria, and could not identify disbursements made to grant recipients. CPA Memorandum 4 and the R3P guidance required each contract or grant file to contain disbursement documentation that recorded the date, amount, and payee for each disbursement made.

Disbursement Authorization in Grant Agreements. We determined that five disbursements totaling more than $2.5 million were made to grant recipients prior to the signing of the grant agreement. In four instances, the funds for an entire grant or a modification to a grant were paid to the grant recipient at least 10 days before the grant agreement was signed. All grant agreements required the grant recipient and the contracting officer to sign the agreement prior to the disbursement of funds. The grant was not considered binding until both the authorized South-Central Region personnel and grant recipient signed the agreement. Therefore, South-Central Region personnel made these disbursements without proper authorization. Table 1 shows disbursements made prior to the signing of the grant agreement.

Table 1. Disbursements Made Prior to Signing of Grant Agreement

Grant Number	Date of Disbursement	Date of Signed Grant Agreement	Amount
DABV01-04-G-8007 P0001 (a modification to a grant)	5/15/2004	5/26/2004	$450,000
DABV01-04-G-8008	3/15/2004	3/25/2004	$500,000
DABV01-04-G-8016	4/14/2004	4/15/2004	$500,000
DABV01-04-G-8022	5/15/2004	5/26/2004	$600,000
DABV01-04-G-8027	5/15/2004	5/26/2004	$500,000
Total Amount Disbursed			**$2,550,000**

Disbursement Criteria in Grant Agreements. Six of the 74 grants awarded by the South-Central Region, valued at a total of $1,975,000, had specific language that provided procedures for disbursements to the grant recipient. In all six cases, the disbursements did not adhere to the procedures established in the grant agreements. The grant agreement identified conditions as to the amount and time-

frames for disbursements.[4] In four instances, instead of 10 percent of the funds being disbursed upon signing the grant as the procedures provided, 100 percent was disbursed at signing. In the other two grants, South Central Region personnel disbursed the balance of remaining grant funds without the required submission of a budget or initial reports documenting results from the initial disbursement.

Disbursement Documentation in Grant Files. We determined that the South-Central Region personnel did not properly document the disbursements of more than $1.1 million. CPA Memorandum 4 and PRB Guidance 04, "Maintaining Project Files," September 30, 2003 (PRB Guidance 04), required grant files to contain a signed grant agreement, receipts and invoices, disbursement documentation, and a certificate of completion.

We identified a disbursement document in the amount of $950,000, and South-Central Region personnel stated they had never heard of the particular grant for which the disbursement was made. South-Central Region personnel were unable to match the disbursement document to either a signed grant agreement or a grant file. A review of records at the Joint Area Support Group - Central Comptroller's office confirmed that the $950,000 was disbursed, and we were able to identify the organization receiving the grant. However, South-Central Region personnel were unable to identify the signature of the recipient. They believed the signature was one of the organization's board members, but they were not certain. South-Central Region personnel were completely unaware that the disbursement had been made, the organization to which it was provided, or for what purpose the $950,000 was used.

We reviewed another grant file that contained no documentation on a grant project that intended payment to the grant recipient in the amount of $200,000. We found that the grant agreement was not signed by the grant recipient; but the file did contain a certificate of completion statement stating the grant project was completed on May 16, 2004. However, no documentation was available to show payment to the grant recipient. Former South-Central Region personnel were asked whether the grant was paid, and they stated they "believed" the money was disbursed.

Accountability for Grant Funds

South-Central Region personnel could not account for the funds disbursed for the grants we reviewed, and they made payments that exceeded the award value of certain grants. CPA Memorandum 4 and PRB Guidance 04 required each contract or grant file to contain disbursement documentation to record the date, amount, and payee for each disbursement made.

Accountability for Grant Funds. We determined that South-Central Region personnel could not account for about $20.5 million of grant funds. We reviewed the South-Central Region's receipt files for the 74 grants and determined that valid receipts were available for only $297,000 of the $20,838,000 disbursed, leaving approximately $20.5 million in cash unaccounted for. According to CPA

[4] Some grant agreements stated that the grantee was to receive 10 percent of the funds at the signing of the grant agreement, and the remaining funds were to be disbursed after a specific action occurred (e.g., the election of a board, the approval of the grant recipient's budget, or an initial report from the grant recipient documenting achievements or results obtained as a result of the initial disbursement).

Memorandum 4, grant recipients were required to document the use of funds with receipts. The grant agreements also called for the grant recipients to maintain records of all expenditures incurred and to provide the receipts to the South-Central Region along with a report documenting the rationale for each of the expenditures. Without receipts, the South-Central Region could not account for the funds spent on the grants, thus we could not determine how recipients used the grant funds. Table 2 shows the amount of grant awards made for which no receipts existed.

Table 2. Amount of Cash Unaccounted For

	Number of Grants	Amount
Total Amount of Grants Awarded	74	$20,838,000
Less: Grant Files with Receipts Available	7	$297,000
Grant Files with Receipts Missing	**67**	**$20,541,000**

Disbursement Amounts. South-Central Region personnel overpaid eight grants in the amount of approximately $2.6 million. The grant files contained no evidence indicating that the overpayments were ever returned or that the South-Central Region personnel ever asked for return of this money. For a detailed list of the overpayments, see Appendix F.

Examples of South-Central Region Grants Management

The CPA South-Central Region used R3P funds to award 74 grants worth approximately $20.8 million between February and June 2004. The following are two examples, from those 74 grants, of the mismanagement of grants used in the South-Central Region. The examples show the results of our evaluations of the management of these two particular grants.

A Grant to Establish or Restore Public Structures and Facilities. A grant in the amount of $6 million was awarded to the Provincial Government of Najaf[5] to:

> . . . establish or restore to appropriate condition public structures and facilities in the Province of Najaf, including but not limited to, government, educational, historical, and religious structures and facilities and the surrounding areas which were damaged by war and conflicts to facilitate the economic recovery of the Province of Najaf.

The grant required the Provincial Government of Najaf to maintain records and promptly furnish quarterly reports to the CPA. The quarterly reports were to contain all such information as the CPA would reasonably require for documentation of the use of the proceeds of this grant.

[5] Najaf is one of the six Iraqi provinces that comprised the CPA South-Central Region

Documentation in Grant Files. We found that the grant file contained only the signed grant agreement and the disbursement document in the amount of $6 million. The grant file did not contain any requests for information from the CPA representatives, any receipts or written reports from the Provincial Government of Najaf, or any record of site-visits from South-Central Region personnel.

Expenditure of Grant Funds. According to the grant agreement, the completion date of the grant was December 31, 2006, and any sums provided under this grant which were not expended on or before that date were to be "remitted back to the CPA." At the time of our review, South-Central Region personnel did not know the amount expended and whether any funds potentially were available for return.

Completion of Grant Work. At the time of our review, no South Central Region personnel knew whether this grant was still underway or completed. If the grant had been completed, then South-Central Region personnel should have executed a post-award assessment to evaluate the affect the grant had upon the community and the performance of the Provincial Government of Najaf in achieving the objectives of the grant.

Oversight of the Grant. We found a complete lack of any requests for information, no receipts or written reports, no record of site-visits, and no funds accountability, and thus the South-Central Region apparently exercised no oversight of the $6 million grant.

Grants for Programs to Promote Employment, Equal Rights for Women, and Democratic Ideals. A grant recipient received six grants between April and May 2004 totaling $3,550,000. The grants were intended to establish a program for immediate employment for Iraqis and to promote programs for equal rights for women and democratic ideals. The grants contained language requiring the recipient to:

> . . . track all expenditures and the purpose of each expenditure and provide a report to the South-Central Regional Coordinator on a monthly basis until such time as the funds are fully expended.

CPA Memorandum Number 4 "establishes procedures applicable to the execution of contracts and grants for the benefit of the Iraqi people using Iraqi Funds. . . ." CPA Memorandum 4 also stated that obtaining receipts for significant payments and documenting the use of funds was necessary to exercise fiscal responsibility when executing grants.

Expenditure of Grant Funds. Instead of following the requirements of CPA Memorandum Number 4, South-Central Region personnel disbursed the money for each grant in one lump sum at the start of the grant. The grant recipient did not provide any receipts to document the expenditure of funds and did not provide the required monthly project reports.

Site-visits to Grant Projects. The South-Central Region was responsible for visiting project sites to "ascertain proper usage of the funds." No documentation existed in the six grant files to indicate any site-visits, any contact with the recipient, or any attempt to determine how the funds were spent.

***Completion of Grant Work*.** Current and former South-Central Region personnel were not familiar with any project or program completed by the grant recipient with the funding provided by the six grants.

Oversight of the Grant. The lack of any receipts or written reports, any record of site-visits, and any funds accountability resulted in the South-Central Region apparently losing oversight of the $3,550,000 grants.

Conclusion

The South-Central Region awarded 74 R3P grants using funds from the DFI to support programs and projects that were to directly benefit the Iraqi people or assist in the recovery of Iraq.

Our review of these grants determined that CPA South-Central Region personnel did not properly manage approximately $20.8 million in funds provided by the DFI to support the South-Central Region R3P. South-Central Region personnel could not account for more than $20.5 million in funds provided by the DFI for grants they managed during the period February through June 2004. Further, overpayments were made that exceeded the total value of grants awarded by more than $2.6 million. Our audit revealed that South Central Region personnel disbursed a total of almost $23.5 million for the 74 grants even though the award value of these grants was only $20.8 million.

Because almost 98 percent of the awarded amounts for the 74 grants could not be accounted for, we could not determine for what purposes the cash expended by the South-Central Region for the grants were actually used by the grant recipients. Finally, because we could not find documentation to support grant performance, we could not determine whether the grants met their intended goals; whether the work for which the grants were intended was started or satisfactorily completed; to whom the cash was actually disbursed in some grants; and what benefit, if any, the Iraqi people received as a result of the grants.

We concluded, based on the documentation examined during our review, that the South-Central Region failed to adequately manage its R3P grant program.

Material Internal Control Weaknesses. Our audit identified material internal control weaknesses. U.S. government agents and Coalition partners did not comply with applicable guidance and did not properly control and account for Iraqi cash assets. In addition, based on the award process for grants and the management of grants we evaluated, there was no assurance that fraud, waste, and abuse did not occur in the management and administration of assets.

Indications of Potential Fraud. During this audit, we found indications of potential fraud and referred these matters to the Assistant Inspector General for Investigations, Office of the Special Inspector General for Iraq Reconstruction, for action. Related investigations are continuing.

Recommendations, Management Comments, and Audit Response

Redirected and Added Recommendations. Since the Coalition Provisional Authority was dissolved on June 28, 2004, we are addressing the recommendations to three of the four successor organizations: the Iraq Reconstruction Management Office; the Joint Contracting Command – Iraq/Afghanistan; and the Joint Area Support Group - Central.

We added a recommendation to the United States Ambassador to Iraq because the Commander, Joint Area Support Group - Central, stated that the responsibility for seeking reimbursement of any overpayments is up to the office that managed the grant, not the disbursing office.

1. We recommend that the U.S. Ambassador to Iraq determine the party responsible for collecting the overpaid grant amounts and direct the responsible individual to take action to seek reimbursement for the overpaid grant amounts.

2. We recommend that the Director, Iraq Reconstruction Management Office, ensure proper authorization and oversight of the grant approval and administrative process for all existing and future grants.

Management Comments. The Director, Iraq Reconstruction Management Office concurred.

3. We recommend that the Commanding General, Joint Contracting Command – Iraq/Afghanistan require that contracting officers, for all existing and future grants:

    a. Follow the Department of Defense 3210.6-R, Grants and Agreements, for the award and administration of grants.

    b. Require grant recipients to provide receipts for all expenditures.

    c. Require monthly reports from the grant recipients detailing expenditures and achievements.

    d. Ensure regular site-visits to the grant recipient location.

    e. Require reports at the end of the grant to assess the performance of the grantee and to document the outcome of the grant in relation to the grant goals.

Management Comments. The Commanding General, Joint Contracting Command – Iraq/Afghanistan concurred and noted that Joint Contracting Command – Iraq/Afghanistan currently has no grants officers and the normal requirement for grants reporting is quarterly.

4. We recommend that the Commander, Joint Area Support Group - Central:

    a. Require paying agents to obtain proper grant approval documentation prior to making disbursements.

    b. Require the appropriate separation of duties.

c. Establish a special team to review disbursements made in other regions of Iraq to determine if the same conditions exist as determined by the Special Inspector General for Iraq Reconstruction in the South-Central Region.

Management Comments. The Commander, Joint Area Support Group - Central generally concurred with all recommendations and took corrective actions. The Commander, Joint Area Support Group - Central partially concurred with the recommendation to seek reimbursement for overpayments, stating that the responsibility for seeking reimbursement of any overpayments is up to the office that managed the grant, not the disbursing office. However, it will support whatever guidance it is provided by the office that is responsible. As a result, we deleted the recommendation to the Commander, Joint Area Support Group - Central to seek reimbursement for the overpayments.

Appendix A. Scope and Methodology

In September 2004, we initiated an audit of cash controls over disbursing officers in southern Iraq as a result of concerns brought to our attention by staff of the Coalition Provisional Authority (CPA) Comptroller.

We reviewed the following documents issued by the CPA:

- CPA Regulation Number 2, "Developmental Fund for Iraq," June 10, 2003
- CPA Regulation Number 3, "Program Review Board," June 18, 2003
- CPA Memorandum Number 4, "Contract and Grant Procedures Applicable to Vested and Seized Iraqi Property and the Developmental Fund for Iraq, Implementation of Regulation Number 3, Program Review Board," August 19, 2003
- Combined Joint Task Force-7, Fragmentary Order 89, June 19, 2003
- Combined Joint Task Force-7, Fragmentary Order 1268, December 22, 2003
- Director, Program Review Board, Program Review Board Guidance 01, "Coalition Provisional Authority Allocation Process," June 9, 2003, updated October 4, 2003
- Director, Program Review Board, Program Review Board Guidance 02, "Program Management Model for the Regions," July 30, 2003
- Director, Program Review Board, Program Review Board Guidance 03, "Program Management Assessment," July 9, 2003
- Director, Program Review Board, Program Review Board Guidance 04, "Maintaining Project Files," September 30, 2003
- Director, Program Review Board, Program Review Board Guidance 05, "Project Monitoring and Evaluation," September 30, 2003
- Director, Program Review Board, Program Review Board Guidance 06, "Rapid Regional Response Program Overview," September 27, 2003
- Director, Program Review Board, Program Review Board Guidance 06.2, "Rapid Regional Response Program Overview (amended)," December 14, 2003 and January 25, 2004

The CPA South-Central Region used Rapid Regional Response Program funds to award 74 grants worth approximately $20.8 million between February and June 2004. We reviewed all 74 grants. We initially reviewed the Program Review Board minutes to determine whether those grants were approved by the Program Review Board.

During our audit, we observed deficiencies in grant award documentation and expanded our scope to determine whether grants were properly managed by coalition representatives in the South-Central Region to include the authorization, award, execution, and oversight of the grants. We spoke with the contracting officials available at the time of our audit regarding the status of the grant projects and examined documentation maintained in the grant files. Those contracting officers primarily were located at the South-Central Region, now known as the U.S. Regional Embassy Office, located in Al Hillah, Iraq; but one contracting

officer who had previously worked for the South-Central Region was working for the Joint Contracting Command – Iraq/Afghanistan.

We performed audit work at two locations to review applicable documentation and grants management procedures. At the Joint Area Support Group - Central Comptroller's Office, located in the U.S. Embassy, Baghdad, Iraq; we reviewed receipts submitted by South-Central Region pay agents to confirm disbursements made for the grants. At the U.S. Regional Embassy Office, we reviewed all other aspects of the grants.

We conducted this performance audit from September 2004 through August 2005, in accordance with generally accepted government auditing standards.

Use of Computer-Processed Data. We did not use computer-processed data to perform this audit.

Prior Coverage. The Special Inspector General for Iraq Reconstruction (SIGIR), which was formerly the Office of the Inspector General, Coalition Provisional Authority (CPA-IG), issued five reports related to controls over cash and the management of contracts. The U.S. Army Audit Agency also issued a report related to controls over cash. The reports are listed below and are available at the indicated website addresses.

Special Inspector General for Iraq Reconstruction Reports. Reports can be accessed on its website at http://www.sigir.mil.

SIGIR Report No. 05-019, "Attestation Engagement Concerning the Award of Non-Competitive Contract DACA63-03-D-0005 to Kellogg, Brown and Root Services, Inc.," September 30, 2005

SIGIR Report No. 05-006, "Control of Cash Provided to South-Central Iraq," April 30, 2005

SIGIR Report No. 05-008, "Administration of Contracts Funded by the Development Fund of Iraq," April 30, 2005

CPA-IG Report No. 04-007, "Oil for Food Cash Controls for the Office of Project Coordination in Erbil, Iraq," July 26, 2004

CPA-IG Report No. 04-009, "Coalition Provisional Authority Comptroller Cash Management Controls Over the Development Fund for Iraq," July 28, 2004

CPA-IG Report No. 04-013, "Coalition Provisional Authority's Contracting Processes Leading Up to and Including Contract Award," July 27, 2004

U.S. Army Audit Agency. Reports can be accessed on its website at https://www.aaa.army.mil/reports.htm.

U.S. Army Audit Agency Audit Report: A-2005-0095-FFG, "Vested and Seized Assets, Operation Iraqi Freedom," February 16, 2005

Appendix B. Coalition Provisional Authority Guidance Applicable to Grants

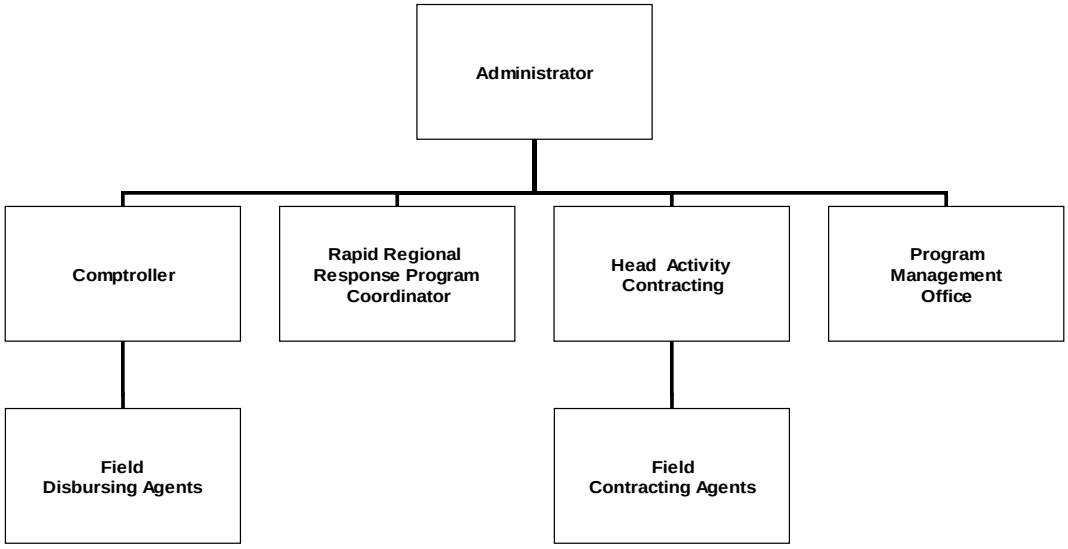
Coalition Provisional Authority (CPA) guidance for the Development Fund of Iraq (DFI) and for the Program Review Board's (PRB) operations that are relevant to grants is:

Coalition Provisional Authority Regulation Number 2. CPA Regulation Number 2, "Development Fund for Iraq," June 10, 2003, described the responsibilities for the administration, use, accounting, and auditing of the DFI. This regulation was intended to ensure that the DFI was managed in a transparent manner for and on behalf of the Iraqi people, consistent with United Nations Security Council Resolution 1483, and that all DFI disbursements would be for purposes benefiting the people of Iraq.

Coalition Provisional Authority Regulation Number 3. CPA Regulation Number 3, "Program Review Board," June 18, 2003, established the procedures applicable to the PRB operations. The PRB was responsible for recommending expenditures of resources from the DFI in a manner that meets the interests of the people of Iraq, furthers CPA policy objectives, and comports fully with CPA stewardship and financial management duties under the applicable laws and regulations, including United Nations Security Council Resolution 1483. The PRB was not responsible for overseeing the manner in which approved spending requirements were executed.

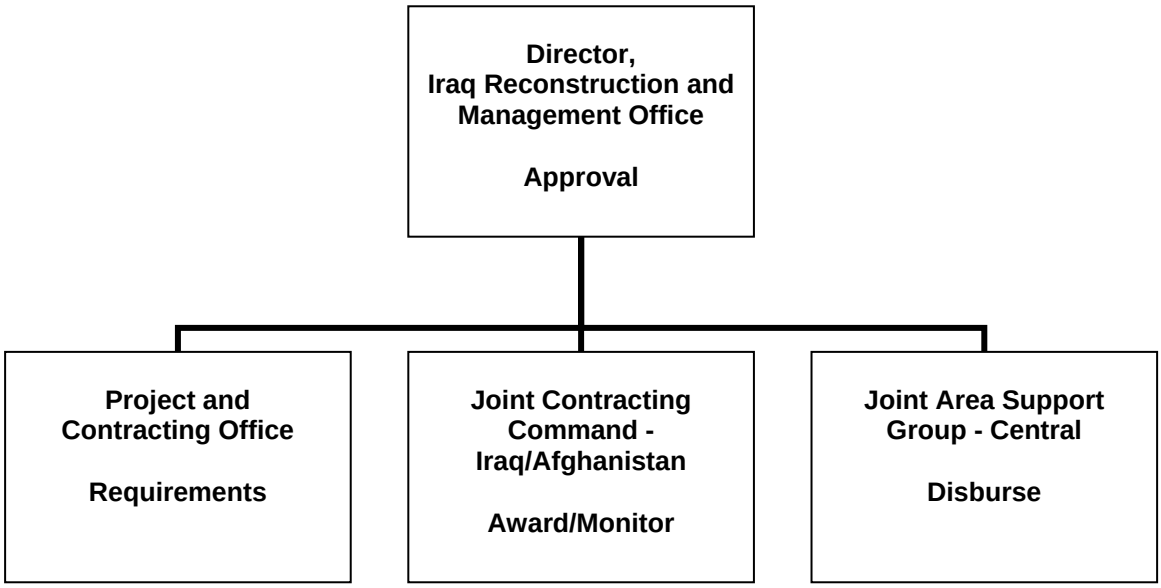
Appendix C. Coalition Provisional Authority Organizational Responsibilities for Grants

The diagram shown below identifies organizational entities within the Coalition Provisional Authority (this is not a complete organizational diagram of the Coalition Provisional Authority) that had oversight and administrative responsibilities for grants until it ceased to exist on June 28, 2004.



Appendix D. Present U.S. Government Organizational Responsibilities for Grants

The diagram shown below identifies the present U.S. government organizational entities that had oversight and administrative responsibilities for grants.



Appendix E. Grants Awarded by the South-Central Region

The South Central Region awarded 74 grants. The total amount awarded was $20,838,000.

Grant Number	Grant Amount	Grant Description
DABV01-04-G-8001	$50,000	Media advancement through training, marketing.
DABV01-04-G-8002	$100,000	Assistance to the Karbala Provincial Council to deal with the Ashoura bombing
DABV01-04-G-8003	$135,000	Delegation of key Iraqi personnel to Washington DC for meetings with US Government officials.
DABV01-04-G-8004	$25,000	Funding for the grand opening of regional democracy centre
DABV01-04-G-8005	$10,000	To aid the Karbala Police Department during the religious holiday of Arbaaeen
DABV01-04-G-8006	$150,000	Iraq Media Professionals Association South East Region (IMPASER) to provide support of the media
DABV01-04-G-8007	$600,000	Provide operating support for the Babylon police academy
DABV01-04-G-8008	$500,000	Provide operating support for the Babylon advanced police training facility
DABV01-04-G-8009	$10,000	Provide operating support for the Diwaniyah Archeology Office to assist in the disinterring of the historical city of Nippur (Nafar) & the protection of a group of historical graves
DABV01-04-G-8010	$200,000	Provide initial start-up and operating expenses for the South Central Freedom Soccer League
DABV01-04-G-8011	$200,000	Exportable medical training; training & public education subscription to medical journals, books, and computer equipment
DABV01-04-G-8012	$15,000	Cleanup of the Barnoon village & instill civic pride
DABV01-04-G-8013	$450,000	Provide support for Babylon Security Training Facility
DABV01-04-G-8014	$500,000	Funding for the security tracking system
DABV01-04-G-8015	$150,000	Aid the Iraqi Democratic Gathering Regional Centre to assist in activities against the Mahdi Army & Moqtada Sadr
DABV01-04-G-8016	$500,000	Aid the Iraqi Democratic Gathering Regional Centre to assist in activities against the Mahdi Army & Moqtada Sadr
DABV01-04-G-8017	$100,000	Support for the people in the Kawliyah Gypsy Tribe
DABV01-04-G-8018	$250,000	Assist w/ City of Najaf's populace needs & counteract the ruinous deeds of Moqtada Al Sadr & Madhi Militia
DABV01-04-G-8019	$950,000	No Grant paperwork
DABV01-04-G-8020	$210,000	Provide operating support for the Karbala Library librarians

Grant Number	Grant Amount	Grant Description
DABV01-04-G-8021	$600,000	Sustain democratic initiatives through funding of programs, projects, conferences, & promote women's rights
DABV01-04-G-8022	$600,000	Sustain democratic initiatives through funding of programs, projects, conferences, & promote women's rights
DABV01-04-G-8023	$750,000	Sustain democratic initiatives through funding of programs, projects, conferences, & promote women's rights
DABV01-04-G-8024	$403,500	Start up funding for the establishment of a Small Business Development Center
DABV01-04-G-8025	$250,000	To provide news, democracy broadcasts, information, & entertainment to the Diwaniyah area
DABV01-04-G-8026	$950,000	Sustain the physical center & cover operational expenses for the Hilla University for Humanitarian, Scientific, and Religious Studies
DABV01-04-G-8027	$500,000	Provide a base monthly operating budget over the next 12 months, while translating books & periodicals that define "Western Civilization" with democratic thoughts and practices from English, French, & German into Arabic
DABV01-04-G-D9001	$50,000	Provide funds to assist in strengthening the Governor's ability to promote the Diwaniyah people's welfare
DABV01-04-G-D9002	$50,000	Provide funds to assist in strengthening the Governor's ability to promote the Diwaniyah people's welfare
DABV01-04-G-D9003	$50,000	Provide funds to assist in strengthening the Governor's ability to promote the Diwaniyah people's welfare
DABV01-04-G-D9004	$50,000	Support operations & improvements to the facilities & equipment of the Diwaniyah's Al Amel & Al Rijaa Institute
DABV01-04-G-D9005	$50,000	Provide the Provincial Council of Diwaniyah representatives funds to assist in strengthening the Council's ability to promote the Diwaniyah people's welfare
DABV01-04-G-D9006	$50,000	Provide the Provincial Council of Diwaniyah representatives funds to assist in strengthening the Council's ability to promote the Diwaniyah people's welfare
DABV01-04-G-D9007	$40,000	Provide the DCCVMV funds to assist in compensating Diwaniyah people with legitimate claims against the Sadr JAS Mehdi Militia for damages and losses incurred during April/May 2004
DABV01-04-G-D9008	$50,000	Support the Governor’s unexpected humanitarian & representation needs including those of non-governmental provincial organizations

Grant Number	Grant Amount	Grant Description
DABV01-04-G-D9009	$50,000	Support library's continued development & usage by the Diwaniyah people through building repair, book binding, essay writing contests, & purchase of additional books
DABV01-04-G-D9010	$10,000	Support Law and Medical College students by providing funds for the purchase of additional books that reflect today's legal & medical environment
1	$25,000	Install street lighting
2	$50,000	Develop educational programs
3	$50,000	Develop community programs
4	$50,000	Develop a sport's club
5	$50,000	Develop community programs
6	$50,000	Develop education programs
7	$50,000	Develop community programs
8	$50,000	Develop community programs
9	$50,000	Develop literacy programs
10	$50,000	Develop women's programs
11	$50,000	Develop water recreation programs
12	$50,000	Construct a home as residence for a medical doctor
13	$10,000	Renovate a home for the medical doctor's residence
14	$25,000	Construct a home for the teacher's residence
W911SO-04-A-0002	$6,000,000	Establish & restore public structures & facilities in Najaf
DABV01-04-1-0015	$375,000	Road repair in Najaf Province
DABV01-04-1-0016	$150,000	Road repair in Kufa Municipality
DABV01-04-1-0017	$225,000	Road repair in Najaf Municipality
DABV01-04-1-0018	$350,000	Cleanup of Kufa Municipality
DABV01-04-1-0019	$1,400,000	Installation of a water system in Najaf Municipality
DABV01-04-1-0020	$1,000,000	Installation of a water system in Kufa Municipality
DABV01-04-1-0021	$525,000	Cleanup of Najaf Municipality
LGF II - 001	$50,000	Provide support for Shiek Saad's people (Irrigation system)
LGF II - 004	$50,000	Provide support for Engineer's Association
LGF II - 012	$29,500	Provide support or Wassit newspaper
LGF II 014	$50,000	Provide support for Province Council
LGF II - 015	$10,000	Provide support for Province Council
LGF II - 016	$50,000	Provide support for Province Council
LGF 004 Wassit 052	$47,000	Provide support for an independent media
LGF 004 Wassit 053	$27,000	Produce better quality programs
K-1000-1	$250,000	damaged properties in the city of Kerbala

Grant Number	Grant Amount	Grant Description
K-685-01	$14,000	Conduct a 1 month cleanup in 6 sectors of the Yarmouk Quarter of Karbala
K-685-02	$5,000	Provide support for women's rights
K-685-03	$3,000	Promote and facilitate women's rights and welfare in Karbala
K-685-04	$1,000	Promote and facilitate women's rights and welfare in Karbala
K-685-10	$3,000	Provide project support to conduct human rights and democracy educational programming
K-685-11	$5,000	Provide support for the Human Right Center to conduct voter's rights educational program
Total Grant Amount	**$20,838,000**	

Appendix F. Overpayments on Grants

South-Central Region personnel overpaid eight grants in the amount of $2,663,500. For a detailed list of the duplicate payments, see the table.

Overpayments on Grants					
Grant Agreement Number	**Grant Agreement Date**	**Grant Award Amount**	**Disbursement Date**	**Disbursement Amount**	**Amount of Overpayment**
DABV01-04-G-8002	3/2/2004	$100,000	3/2/2004	$100,000	
			3/3/2004	$100,000	$100,000
DABV01-04-G-8015	4/10/2004	$150,000	4/10/2004	$150,000	
			4/10/2004	$150,000	$150,000
DABV01-04-G-8016	4/16/2004	$500,000	4/15/2004	$500,000	
			4/15/2004	$500,000	$500,000
DABV01-04-G-8017	4/19/2004	$100,000	4/20/2004	$100,000	
			4/28/2004	$100,000	$100,000
DABV01-04-G-8020	5/24/2004	$210,000	5/26/2004	$210,000	
			6/8/2004	$210,000	$210,000
DABV01-04-G-8024	5/26/2004	$403,500	5/27/2004	$403,500	
			5/27/2004	$403,500	$403,500
DABV01-04-G-8025	5/25/2004	$250,000	5/27/2004	$250,000	
			5/27/2004	$250,000	$250,000
DABV01-04-G-8026	5/26/2004	$950,000	5/27/2004	$950,000	
			6/1/2004	$950,000	$950,000
Total Overpayments					**$2,663,500**

Appendix G. Acronyms

CPA	Coalition Provisional Authority
CPA-IG	Coalition Provisional Authority Office of the Inspector General
DFI	Development Fund for Iraq
DoD	Department of Defense
PCO	Project and Contracting Office
PRB	Program Review Board
R3P	Rapid Regional Response Program
SIGIR	Special Inspector General for Iraq Reconstruction

Appendix H. Report Distribution

Department of State

Secretary of State
    Senior Advisor to the Secretary and Coordinator for Iraq
U.S. Ambassador to Iraq
    Director, Iraq Reconstruction Management Office
Inspector General, Department of State

Department of Defense

Secretary of Defense
Deputy Secretary of Defense
    Director, Defense Reconstruction Support Office
Under Secretary of Defense (Comptroller)/Chief Financial Officer
    Deputy Chief Financial Officer
    Deputy Comptroller (Program/Budget)
Inspector General, Department of Defense

Department of the Army

Assistant Secretary of the Army for Acquisition, Logistics, and Technology
    Principal Deputy to the Assistant Secretary of the Army for Acquisition, Logistics, and Technology
    Deputy Assistant Secretary of the Army (Policy and Procurement)
    Director, Project and Contracting Office
    Commanding General, Joint Contracting Command – Iraq/Afghanistan
Assistant Secretary of the Army for Financial Management and Comptroller
Chief of Engineers and Commander, U.S. Army Corps of Engineers
    Commander, Gulf Region Division
Auditor General of the Army

U.S. Central Command

Commanding General, Multi-National Force – Iraq
    Commanding General, Multi-National Security Transition Command – Iraq
    Commander, Joint Area Support Group – Central

Other Defense Organizations

Director, Defense Contract Audit Agency

Other Federal Government Organizations

Director, Office of Management and Budget
Comptroller General of the United States
Inspector General, Department of the Treasury
Inspector General, Department of Commerce
Inspector General, Department of Health and Human Services
Inspector General, U.S. Agency for International Development
Mission Director – Iraq, U.S. Agency for International Development

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

U.S. Senate

Senate Committee on Appropriations
- Subcommittee on Defense
- Subcommittee on State, Foreign Operations and Related Programs

Senate Committee on Armed Services
Senate Committee on Foreign Relations
- Subcommittee on International Operations and Terrorism
- Subcommittee on Near Eastern and South Asian Affairs

Senate Committee on Homeland Security and Governmental Affairs
- Subcommittee on Federal Financial Management, Government Information and International Security
- Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia

U.S. House of Representatives

House Committee on Appropriations
- Subcommittee on Defense
- Subcommittee on Foreign Operations, Export Financing and Related Programs
- Subcommittee on Science, State, Justice and Commerce and Related Agencies

House Committee on Armed Services
House Committee on Government Reform
- Subcommittee on Management, Finance and Accountability
- Subcommittee on National Security, Emerging Threats and International Relations

House Committee on International Relations
- Subcommittee on Middle East and Central Asia

Appendix I. Audit Team Members

The Office of the Assistant Inspector General for Auditing, Office of the Special Inspector General for Iraq Reconstruction, prepared this audit report. The Office of the Special Inspector General for Iraq Reconstruction staff members who contributed to the report include:

James Carrera

Angelina Johnston

Robert Murrell

Kevin O'Connor

William Shimp

William Whitehead

Embassy of the United States of America
Baghdad, Iraq

September 22, 2005

RESPONSE TO REPORT STATEMENTS

UNCLASSIFIED

TO: Senior Audit Manager, SIGIR - James Carrera

FROM: IRMO Director – Daniel Speckhard

SUBJECT: Report on Management of Rapid Response Program Grant in South-Central Iraq

The following comments are provided as requested for the draft statements and recommendations shown:

Statements and Findings: Concur with statements as written. Between February and June 2004, the Coalition Provisional Authority (CPA) South-Central Region used funds provided from the Development Fund of Iraq (DFI) through the Rapid Regional Response Program (R3P) to award 74 grants worth about $20.8M. The overall audit objective was to determine whether disbursing officers in selected locations in southern Iraq complied with applicable guidance and properly controlled and accounted for DFI cash assets and expenditures. While the Iraq Reconstruction Management Office (IRMO) began operations subsequent to these matters, the recommendations from SIGIR are noted below.

Recommendations: The SIGIR recommended that the Director of IRMO ensure proper authorization and oversight of the grant and administrative process for all existing and future grants. IRMO concurs.

Attachment

Report on *Management of Rapid Response Program Grant in South-Central Iraq*
Dated September 1, 2005

DRAFTED:	IRMO Operations	RDiehl	19 September 2005
CLEARED:	IRMO ExecOfc	DHarris	(ok)

Management Comments
Commanding General, Joint Contracting Command – Iraq/Afghanistan

HEADQUARTERS
JOINT CONTRACTING COMMAND-IRAQ/AFGHANISTAN
BAGHDAD, IRAQ
APO AE 09316

Reply to:
MNFI-JCC

21 September 2005

MEMORANDUM FOR Special Inspector General for Iraq Reconstruction, Baghdad, Iraq

SUBJECT: Draft Audit Report on Management of Rapid Regional Response Program Grants in South-Central Iraq (Project No. D2004-DCPAAF-0034.2)

The subject audit report addresses recommendations for the Director, Iraq Reconstruction Management Office; Commanding General, Joint Contracting Command – Iraq/Afghanistan; and the Joint Area Support Group – Central, Baghdad.

The purpose of this memorandum is to address the five recommendations for JCC-I/A contracting officers to follow for award and administration of existing and all future grants. It should be clarified that contracting officers may not award grants. Only appropriately appointed and authorized grants officers may award, modify or otherwise administer grants and make related determinations and findings. Contracting officers procure goods and services using appropriated funds to meet the needs of the U. S. Government. Grants are gifts of appropriated funds specifically authorized by Congress to be given to recipients to promote the public good. Grants officers are duly appointed under the authority of DoD Grant and Agreement Regulations (DoDGAR).

Responses to the five recommendations for JCC-I/A are as follows:

(R-1) Follow the DoD 3210.6-R, Grants and Agreements Regulation (DoDGAR), for the award and administration of grants.

Response: We concur. JCC-I/A currently has no grants officers. However, if grants are authorized by Congress, a grants officer will be appointed in accordance with DoD 3210.6-R, DoDGAR, to award and administer them.

(R-2) Require grant recipients to provide receipts for all expenditures.

Response: Concur.

(R-3) Require monthly reports from the grant recipients detailing expenditures and achievements.

Response: Partially concur. There is no established frequency for reporting. Normal requirement for grants reporting is quarterly. However, in the Iraqi environment we would

recommend that the grants officer review each individual grant and the recipient to determine if monthly reporting is necessary to protect the Government's interest with reports no less often than quarterly.

(R-4) Ensure regular site visits to the grant recipient location.

Response: Concur. It is very important to conduct regular technical reviews of the recipient's progress and activity. This should be performed by the technical representative of the grants officer at the site of the work. The technical representative should also review the financial reports to verify that results are being achieved.

(R-5) Require reports at the end of the grant to assess the performance of the grantee and to document the outcome of the grant in relation to the grant goals.

Response: Concur. A final report should be required from the recipient of both the results and benefits of the effort as well as the closing financial report. The technical representative of the grants officer should verify the results of the grant dollars on the ground.

My point of contact for questions is COL Edwin H. Martin, 703-544-6586.

JOHN M. URIAS
MG, USA
Commander, Joint Contracting Command
Iraq/Afghanistan

Management Comments
Commander, Joint Area Support Group – Central

HEADQUARTERS
JOINT AREA SUPPORT GROUP - CENTRAL (PROVISIONAL)
BAGHDAD, IRAQ
APO AE 09316

REPLY TO ATTENTION OF

JASG-C/C8

16 September 2005

MEMORANDUM FOR SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

SUBJECT: Report on Management of Rapid Regional Response Program Grants in South-Central Iraq

1. REFERENCE:

a. Draft Audit Report on Management of Rapid Regional Response Program Grants in South-Central Iraq, Project Number D2004-DCPAAF-0034.2, dated 1 September 2005

b. Audit Report on Control of Cash Provided to South-Central Iraq, dated 30 April 2005.

2. PURPOSE: Provide JASG-C comments to subject draft audit report.

3. SCOPE: Reference (enclosed) report. Comments are provided as requested for the draft statements and recommendations shown.

a. Statements. Management of Rapid Regional Response Program Grants in South-Central Iraq. Concur with the statements as written. Note that the period and region audited was the same as that documented by reference (b). Accordingly, the same significant factors that contributed to the conditions documented by reference (b), paragraph 1.a., also contributed to the findings of this report.

b. Recommendations.

(1) Concur. Division Level Agent/Paying Agent Disbursement Checklist was modified, adding grant language alongside existing contract language on the form. The new form was provided to all Division Level Agents via receipted email for further distribution to their paying agents as well. Action complete.

Comptroller Comments.max

(2) Concur. All agents are required to maintain separation of duties, i.e. that they cannot be any part of the procurement/program management process. This point was reinforced again in September 2005 to all existing Division Level Agents (for further transmission to their Paying Agents) via receipted email. Action complete.

(3) Non-concur as written. As PCO's (now JCC-I/A) Disbursing Officer, JASG-C Comptroller acts in a lead-follow manner. Payments are made based on contracting officer or grant manager direction. If a contract has been overpaid, it is not the Disbursing Officer that seeks repayment. This direction is from the contracting officer to the vendor, because the contracting officer knows the facts of the entire contract file as well as overall office dealings with the vendor. The contracting office sends a demand letter notifying the vendor to return funds or prove why they should not be returned. If the vendor does not comply, the contracting office takes further steps such as withholding payment on other contracts, placing the vendor on a list of companies for the government not to do business with, etc. Grant management is the same. It is up to the office that managed the grant to seek recoupment of funds, not the disbursing office. The disbursing office will support the guidance provided by that office. Additionally, SIGIR should provide the appropriate office all relevant information regarding the grants overpaid to facilitate funds recovery.

(4) Concur. We are currently in the process of contracting for a Special Action Team capability who's Performance Work Statement covers this area of fiduciary responsibility. Estimated date of contracted work completion is 31 March 2006.

4. POC is the JASG Comptroller, Lt Col Vincent Miller at DSN: 239-8625.

THOMAS S. STEFANKO
COL, IN, USA
Commanding